

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED JANUARY 17, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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December 19, 2006

Independent Auditor's Report
on the Financial Statements

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Office of Group Benefits, an office within Louisiana state government, as of and for the year ended June 30, 2006, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Office of Group Benefits. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Office of Group Benefits. As such, they present the appropriated and non-appropriated activity of the office that are part of the accounts and fund structure of the State of Louisiana. The Ancillary Appropriation Fund reflects appropriated activity of the office that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. The effects on the financial statements of the variances between legal basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the accompanying special purpose financial statements referred to above were not intended to and do not present fairly, in conformity with accounting principles generally accepted in the United

OFFICE OF GROUP BENEFITS

States of America, the financial position of each fund of the Office of Group Benefits as of June 30, 2006, or changes in financial position for the year then ended.

In our opinion, the accompanying special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Office of Group Benefits as of June 30, 2006, and the transactions of the appropriated fund for the year then ended, on the basis of accounting described in note 1-D.

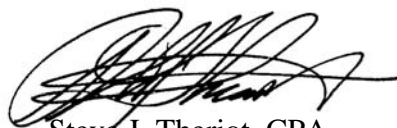
As discussed in note 16 to the financial statements, in August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting damages sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Office of Group Benefits did not directly suffer any major damage from the hurricanes, the long-term effects of these events directly on the Office of Group Benefits cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2006, on our consideration of the Office of Group Benefits' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the accompanying special purpose financial statements of the Office of Group Benefits taken as a whole. The accompanying supplemental information schedule is not a required part of the financial statements. The schedule is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Office of Group Benefits and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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OGB06

**OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS**

Balance Sheet (Legal Basis), June 30, 2006

| | APPROPRIATED FUND - ANCILLARY APPROPRIATION | NON- APPROPRIATED - AGENCY FUND | TOTAL (MEMORANDUM ONLY) |
|---|--|---------------------------------------|---|
| ASSETS | | | |
| Cash (note 2) | \$54,566,708 | \$116,286 | \$54,682,994 |
| Receivables - fees and self-generated revenues | 15,326,975 | | 15,326,975 |
| Other receivables | | 24,917 | 24,917 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u> \$69,893,683 </u> | <u> \$141,203 </u> | <u> \$70,034,886 </u> |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Payables (note 7) | \$38,939,322 | | \$38,939,322 |
| Amounts held in custody for others | | \$35,834 | 35,834 |
| Other liabilities | | 105,369 | 105,369 |
| Advance due to state treasury (note 12) | 50,000 | | 50,000 |
| Deferred revenues | 457,881 | | 457,881 |
| Estimated liabilities (note 8) | 63,000,000 | | 63,000,000 |
| Total Liabilities | <u> 102,447,203 </u> | <u> 141,203 </u> | <u> 102,588,406 </u> |
| Fund Equity - fund balance (deficit) (note 13) | <u> (32,553,520) </u> | <u> NONE </u> | <u> (32,553,520) </u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u> \$69,893,683 </u> | <u> \$141,203 </u> | <u> \$70,034,886 </u> |

The accompanying notes are an integral part of this statement.

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**OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ANCILLARY APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 2006**

REVENUES

Appropriated by legislature -
state General Fund by fees and self-generated revenues \$1,095,572,677

EXPENDITURES

Appropriated for health and life insurance for
active and retired public employees 1,025,719,594

EXCESS OF REVENUES OVER EXPENDITURES 69,853,083

FUND BALANCE (Deficit) AT BEGINNING OF YEAR (102,406,603)

FUND BALANCE (Deficit) AT END OF YEAR (\$32,553,520)

The accompanying notes are an integral part of this statement.

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**OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ANCILLARY APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and
Unexpended Appropriation - Budget
Comparison of Current-Year Appropriation -
Budget (Legal Basis) and Actual
For the Year Ended June 30, 2006**

| | <u>BUDGET</u> | <u>ACTUAL</u> | VARIANCE FAVORABLE (UNFAVORABLE) |
|--|----------------------|----------------------|--|
| REVENUES | | | |
| Appropriated by legislature - state General Fund by fees and self-generated revenues | \$1,085,827,248 | \$1,095,974,887 | \$10,147,639 |
| EXPENDITURES | | | |
| Appropriated for health and life insurance for active and retired public employees | <u>1,085,827,248</u> | <u>1,058,928,141</u> | <u>26,899,107</u> |
| UNEXPENDED APPROPRIATION - CURRENT YEAR | <u>NONE</u> | <u>\$37,046,746</u> | <u>\$37,046,746</u> |

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Board of Trustees of the State Employees Group Benefits Program was created within the Office of the Governor, Division of Administration, effective July 1, 1998, as provided by Louisiana Revised Statute (R.S.) 42:801. Act 1178 of the 2001 Regular Session of the Louisiana Legislature changed the name of the State Employees Group Benefits Program to the Office of Group Benefits and removed the authority of the Board of Trustees to make policy decisions.

The office was formed to administer a program of group health and life insurance for active and retired state employees, active and retired school board employees, and certain political subdivisions' employees, as authorized by state statute. The office also administers the cafeteria plan and flexible-spending plan for plan members. The office's operations are divided into executive, administrative services, field service, claim service, claims processing, fiscal, data processing, and quality assurance functions. Approximately 131,704 plan members are enrolled in the program for fiscal year 2005-2006, of which 46,353 are enrolled through HMO contracts. The office has 338 authorized full-time staff positions. Funds are reestablished annually by provisions of the Ancillary Appropriations Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying special purpose financial statements have been prepared on a legal basis prescribed by the Division of Administration, Office of Statewide Reporting and Accounting Policy, which differs from accounting principles generally accepted in the United States of America as explained in the following notes.

B. REPORTING ENTITY

The State of Louisiana has been determined to be the reporting entity under GASB Codification Section 2100. The accompanying financial statements represent activity of only the Office of Group Benefits, an office of state government and, therefore, are a part of the funds of the State of Louisiana and its basic financial statements. Annually, the State of Louisiana issues basic financial statements that are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Office of Group Benefits uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated fund. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent

is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of accounting principles generally accepted in the United States of America.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, capital assets, and long-term liabilities are reflected in the State of Louisiana's basic financial statements.

The funds presented in the special purpose financial statements are described as follows:

APPROPRIATED FUND

Ancillary Appropriation Fund

The Office of Group Benefits administers a self-insured group health insurance program and group life insurance program for state employees, for other specified public employees, and for individuals who qualify for continued group health coverage under the Consolidated Omnibus Reconciliation Act (COBRA) of 1985. The group life insurance program is underwritten by Prudential Insurance Company of America. This fund accounts for the office's appropriated revenues, operating expenditures, and minor capital acquisitions.

NON-APPROPRIATED FUND

**Agency Fund - Dependent Care Flexible
Spending Account Plan/Health Care
Flexible Spending Account Plan**

The Dependent Care Flexible Spending Account Plan/Health Care Flexible Spending Account Plan agency fund accounts for transactions of a qualified dependent care assistance program pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 129, and transactions related to qualified amounts received under accident and health plans pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 105. Plan members make deposits into the fund through payroll deductions and make withdrawals when qualifying expenditures have been incurred. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the program.

NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

Under the foregoing legal provisions, the office uses the following practices in recognizing revenues and expenditures:

Revenues

Fees and self-generated revenues are recognized when earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid. Furthermore, any expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

E. BUDGET PRACTICES

The ancillary appropriation, made for the operations of the office, is an annual lapsing appropriation consisting of self-generated funds. Revenues and expenditures for budget purposes are recognized on the basis of accounting as described in note 1-D, except that revenues reflected on Statement C include receipts that have been recorded as deferred revenue when collected. In addition, salaries and related benefits and health claims are recognized when paid on Statement C. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

| | |
|--------------------------------------|-------------------------------|
| Statement B revenues | \$1,095,572,677 |
| Add - current-year deferred revenues | 457,881 |
| Less - prior-year deferred revenues | <u>(55,671)</u> |
| Statement C revenues | <u>\$1,095,974,887</u> |
| Statement B expenditures | \$1,025,719,594 |
| Add - estimated liabilities (net) | 33,300,000 |
| Less - payroll payable (net) | <u>(91,453)</u> |
| Statement C expenditures | <u><u>\$1,058,928,141</u></u> |

The office is prohibited by statute from overexpending the program levels established in the budget. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation of \$1,085,827,248. There were no amendments.

Statement C reflects that the office did not exceed its expenditure budget for fiscal year 2005-2006. The annual appropriation provides that any unexpended balance in the office's self-generated funds may be retained as fund equity to fund future expenditures of the office. The non-appropriated funds are not subject to budgetary control.

F. CASH

Cash includes cash on hand, demand deposits, and cash in state treasury. Under state law, the office may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States.

G. LONG-TERM OBLIGATIONS

The office is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the office arising from installment purchases, lease commitments, judgments, compensated absences, loss adjusting expenses for health claims, or from any other source are not recognized in the accompanying special purpose financial statements.

H. COMPENSATED ABSENCES

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon separation of employment, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. The liability for unused annual and sick leave is not recorded in the accompanying financial statements.

Certain employees of the office are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hour for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another; however, under federal regulations, certain employees are compensated for unused compensatory leave six months after the end of the quarter in which the leave was earned. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

I. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned "Total (Memorandum Only)" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation.

2. CASH

Cash is composed of the following:

| | |
|---|----------------------------|
| Petty cash on hand | \$100 |
| Demand deposits | 49,900 |
| Cash on deposit with the state treasury | <u>54,632,994</u> |
| Total | <u><u>\$54,682,994</u></u> |

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The office has deposit balances (collected bank balances) of \$127,300 at June 30, 2006. These deposits are fully secured from risk by federal deposit insurance and pledged securities.

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's basic financial statements. The following is a summary of cash in the state treasury:

| | |
|-------------------|----------------------------|
| Means of finance | \$55,196,626 |
| Operating account | (679,918) |
| Escrow account | <u>116,286</u> |
| Total | <u><u>\$54,632,994</u></u> |

3. PENSION PLAN

Substantially all employees of the office are members of the Louisiana State Employees Retirement System, a single-employer defined benefit pension plan. Required disclosures for the plan for fiscal year 2006 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

4. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The office provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the office's employees become eligible for these benefits if they reach normal retirement age while working for the office. These benefits for retirees and similar benefits for active employees are provided through the office and the Prudential Insurance Company of America, the life insurance underwriter. The monthly premiums are paid jointly by the employee and the office. The office's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2006, the costs of retiree benefits totaled \$462,219 for 71 retirees.

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

The office is involved in 28 pending lawsuits at June 30, 2006, that have been reported to the Attorney General's Office and are not reflected in the accompanying financial statements. The office has been advised by legal counsel that, while it is impossible to ascertain the ultimate legal and financial responsibility with respect to such litigation as of June 30, 2006, it is the staff's opinion that the ultimate aggregate liability will be \$9,790,623. In addition, it is reasonably possible that an additional \$277,244 liability could be imposed. These amounts are not reflected in the accompanying special purpose financial statements, but the settlement amount would be paid by the office if judgment were rendered in favor of the plaintiff.

Claims and litigation costs of \$50,611 were incurred in the current year and are reflected in the accompanying financial statements.

Obligations and losses arising from judgments, claims, and similar contingencies not relating to health and life claims are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

6. COMPENSATED ABSENCES

The liability for unused annual leave payable at June 30, 2006, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated to be \$1,487,877. The leave payable is not accrued (reflected) in the accompanying special purpose financial statements.

The liability for accrued compensatory leave at June 30, 2006, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated to be \$3,706. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

7. PAYABLES

Payables at June 30, 2006, consist of \$38,239,566 for accounts payable and \$699,756 for accrued payroll payable.

8. ESTIMATED LIABILITIES

The estimated liabilities for health claims reported but unpaid (RBU) and incurred but not reported (IBNR), as shown on Statement A, in accordance with the instructions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, total \$63,000,000 at June 30, 2006. The estimated liability for the RBU and IBNR is based upon information submitted by the actuarial firm of Mercer Health and Benefits.

9. INTEREST EARNINGS

The Office of Group Benefits does not maintain investment accounts. The State Treasurer's Office invests the office's idle funds. The amount of interest paid by the Treasurer's Office during the fiscal year was \$1,274,822.

10. LEASE AND RENTAL COMMITMENTS

The office has several noncancelable operating leases for rental of office space. The annual operating lease payments for the next 15 fiscal years are presented as follows:

| <u>Fiscal Year</u> | <u>Office Space</u> |
|--------------------|----------------------------|
| 2007 | \$1,236,151 |
| 2008 | 1,271,232 |
| 2009 | 1,265,385 |
| 2010 | 1,245,678 |
| 2011 | 1,221,154 |
| 2012-2016 | 6,280,968 |
| 2017-2021 | 399,677 |
| Total | <u><u>\$12,920,245</u></u> |

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 2005-2006 amounted to \$1,118,312. The Office of Group Benefits does not have any capital lease agreements at June 30, 2006.

11. DEFERRED COMPENSATION PLAN

Certain employees of the office participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

12. ADVANCE DUE TO STATE TREASURY

The office received an advance from the state treasury for imprest fund operations totaling \$50,000, as authorized by the Commissioner of Administration in accordance with Title 39 of the Louisiana Revised Statutes. The fund is permanently established and periodically replenished from office operating funds.

13. FUND BALANCE (DEFICIT)

As shown on Statement A, at June 30, 2006, the office has a fund balance deficit of \$32,553,520. The office is attempting to resolve the deficit by health premium rate increases for fiscal year 2007.

14. UNRECORDED ESTIMATED LIABILITY

The office has not recognized a potential liability of approximately \$1,200,000 for Medicaid claims. This amount is based on claims submitted by Health Management Systems, Incorporated, on behalf of the Department of Health and Hospitals. Medicaid is payor of last resort, and these claims were previously paid by Medicaid for plan members of the office.

The chance of loss occurring is more than remote but less than likely. Therefore, in accordance with Financial Accounting Standards Board Statement 5, this potential liability is not recorded in the special purpose financial statements but is disclosed in the notes.

15. GASB 34 ACCRUALS

The following table presents the adjustments necessary to convert the modified accrual basis accounts receivable, as shown in Statement A, to full accrual basis accounts receivable as required by the Office of Statewide Reporting and Accounting Policy.

NOTES TO THE FINANCIAL STATEMENTS

| | Accounts Receivable Modified Accrual Basis | Full Accrual Adjustment | Allowance for Doubtful Accounts | Accounts Receivable Full Accrual Basis |
|---|--|-------------------------------|---------------------------------------|---|
| Appropriated revenues: | | | | |
| Fees and self-generated | \$15,326,975 | \$131,786 | (\$1,404) | \$15,457,357 |
| Retiree drug subsidy | | 8,366,062 | | 8,366,062 |
| Appropriated expenditures: | | | | |
| Pharmaceutical rebates | | 3,976,831 | | 3,976,831 |
| Humana premium adjustment | | 899,257 | | 899,257 |
| Non-appropriated revenues - agency funds | 24,917 | | | 24,917 |

16. HURRICANES KATRINA AND RITA

In August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Although the Office of Group Benefits did not incur major damage from the storms, the cost of recovery to the state and its long-term impact on the Office of Group Benefits is unknown at this time.

17. SUBSEQUENT EVENTS

Effective July 1, 2006, the Office of Group Benefits implemented a 5.9% aggregate rate increase for all health plan options.

Effective July 1, 2006, the Humana plan offered by the Office of Group Benefits went from fully-insured to self-insured. This change transferred the risk of loss to the Office of Group Benefits as the Office of Group Benefits now has the sole responsibility to provide funds for plan benefits.

Effective September 26, 2006, the Office of Group Benefits discontinued the contract with 1Point Solutions for Flexible Spending Account claim reimbursement services and entered into a replacement contract with DataPath Administrative Services.

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**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -
NON-APPROPRIATED FUND**

Changes in assets and liabilities for the Dependent Care Flexible Spending Account Plan/Health Care Flexible Spending Account Plan Agency Fund for the year ended June 30, 2006, are presented on Schedule 1.

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**OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
NON-APPROPRIATED FUND - AGENCY FUND**

**Schedule of Changes in Assets and Liabilities
For the Year Ended June 30, 2006**

| Dependent Care/Health Care <u>Flexible Spending Account Plan</u> | <u>BALANCE JULY 1, 2005</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>BALANCE JUNE 30, 2006</u> |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------------|
| ASSETS | | | | |
| Cash | \$130,001 | \$3,736,380 | (\$3,750,095) | \$116,286 |
| Receivables | 8,416 | 24,917 | (8,416) | 24,917 |
| TOTAL ASSETS | <u><u>\$138,417</u></u> | <u><u>\$3,761,297</u></u> | <u><u>(\$3,758,511)</u></u> | <u><u>\$141,203</u></u> |
| LIABILITIES | | | | |
| Amounts held in custody for others | \$35,281 | \$3,655,928 | (\$3,655,375) | \$35,834 |
| Other liabilities | 103,136 | 105,369 | (103,136) | 105,369 |
| TOTAL LIABILITIES | <u><u>\$138,417</u></u> | <u><u>\$3,761,297</u></u> | <u><u>(\$3,758,511)</u></u> | <u><u>\$141,203</u></u> |

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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December 19, 2006

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards*

**OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Office of Group Benefits as of and for the year ended June 30, 2006, and have issued our report thereon dated December 19, 2006. Our report was modified to indicate that the financial statements present fairly the financial position and changes in financial position of the court on a legal basis rather than in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of Group Benefits' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of Group Benefits' special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements,

noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Office of Group Benefits and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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